Time allowed: 2 Hrs 30 Min   Max Marks: 50

Roll No._____

Instruction: Students are required to write Roll No. on every page of question paper, writing anything except the Roll No. will be treated as **Unfair Means.** In case of rough work please use answer sheet.

Sections	No. of questions to attempt	Marks	Marks
A	3 out of 5 (Short questions)	5 marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 marks each	2*10 = 20
C	Compulsory Case Study	15 marks	15
		Total Marks	50

Section A

1. What are Net Present Value (NPV) & the Opportunity Cost of Capital?
2. What is the difference between a perpetuity and an annuity? Derive their formulae.
3. What are alternative methods to NPV used in evaluation of project viability?
4. What are the risks of investing in the share market? How can you reduce risk?
5. What is the validity and role of the Capital Asset Pricing Model?

Section B

1. The scientists at Company V have designed a new electric spray & the company is ready with pilot production & test marketing. The preliminary phase will take one year and cost Rs.125,000. Management feel that there is a 50% chance of success in the pilot production/test marketing. If successful, the company will invest Rs.1000,000 in the plant that would generate expected annual cash flow in perpetuity of Rs.250,000 a year after tax. If unsuccessful the project will have to be dropped. The management feels that the project is one of high risk and considers it prudent to discount cash flows @ 25% pa rather than the normal risk of 10% at Company V. Is the project worth doing?

2. The firm has a marginal tax rate of 33.66%. The cost of equity is 20.0% and the pretax cost of debt is 8.48%. Given the book and market value balance sheets, what is the tax adjusted WACC?

Debt (D)	Rs 318 crores	at r_D	8.48%
Equity (E)	2443.8	at r_E	20%
Preference Capital (P)	40	at r_P	12%
Firm value (V)	Rs 2802 million		

3. Suppose 47% of your portfolio is invested in Reliance Energy and remainder in Grasim Industries. You expect a return of 17% from Reliance Energy and 14% from Grasim. Calculate the expected portfolio return and risk of the portfolio given the standard deviation of returns from Reliance Energy and Grasim are 37% and 33% respectively and the correlation coefficient between the 2 stocks is 0.52

From the abbreviated Balance Sheet and Profit and Loss account for Colgate Palmolive for 2005-06 (all figures in Rs. crores) Calculate the following ratios:-

Profit and Loss Account	
Net Sales	3989.11
Other Income	632.75
Total Revenue	4621.86
Cost of Goods Sold	(3341.08)
Depreciation	(348.65)
Earnings Before Interest & Tax	932.13
Net Interest	(191.88)
Tax	(89.91)
Profit after Tax	650.34
Dividend	120.85

Balance Sheet		
	Mar 06	Mar 05
Cash & Bank	5652.9	6045.37
Receivables	4466.1	2205.93
Inventories	396.33	389.14
Net Fixed Assets	2865.36	2910.94
Other Assets	1315.84	795.62
Total Assets	14696.53	12347
Short Term Debt	160	675
Payables	1659.06	2046.15
Provisions	713.43	479.9
Long Term Debt	4130.47	3085.78
Other Liabilities	248.53	288.69
Shareholder's equity	7785.04	5771.48
Total Liabilities	14696.53	12347

Calculate the following ratios and interpret results:
a) Debt ratio
b) Times-interest-earned ratio
c) Current Ratio
d) Quick ratio
e) Net Profit margin
f) Days in inventory
g) Return on equity
h) Payout ratio